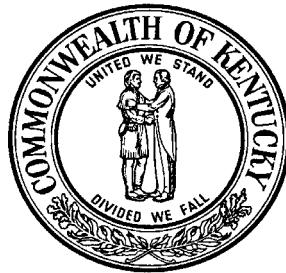


**REPORT OF THE AUDIT OF THE  
ADAIR COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Adair County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$96,020 from the beginning of the year, resulting in a cash surplus of \$681,029 as of June 30, 2003.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2003, was \$309,189. Future collections of \$441,056 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$680,136 as of June 30, 2003. Future principal and interest payments of \$841,043 are needed to meet these obligations.

#### **Report Comments:**

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Fiscal Court Paid \$4,517 Of Service Charges Because Invoices Were Not Paid Timely

#### **Deposits:**

As of August 31, 2002, the fiscal court's deposits were uninsured and unsecured by \$254,005.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
ADAIR COUNTY OFFICIALS.....	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS .....	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE.....	10
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE.....	15
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE .....	19
NOTES TO FINANCIAL STATEMENTS .....	20
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE .....	31
SCHEDULE OF OPERATING REVENUE .....	35
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES .....	39
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	43
COMMENTS AND RECOMMENDATIONS .....	47
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS	





C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Jerry Vaughan, Adair County Judge/Executive  
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Adair County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund type; the statement of cash receipts, cash disbursements, and changes in cash balance - proprietary fund type; and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Adair County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Adair County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Adair County, Kentucky, as of June 30, 2003, and its revenues and expenditures, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2004, on our consideration of Adair County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Jerry Vaughan, Adair County Judge/Executive  
Members of the Adair County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Adair County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Fiscal Court Paid \$4,517 Of Service Charges Because Invoices Were Not Paid Timely

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 11, 2004



ADAIR COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Jerry Vaughan	County Judge/Executive
Roger Stephens	Magistrate
Wid Harris	Magistrate
Tony Loy	Magistrate
J. M. Shelley	Magistrate
Junior Brown	Magistrate
Joe Rogers	Commissioner
Terry Farris	Commissioner
	Commissioner

**Other Elected Officials:**

Jennifer Hutchison-Corbin	County Attorney
William Knight	Jailer
Ann Melton	County Clerk
Dennis Loy	Circuit Court Clerk
Steve Cheatham	Sheriff
William Feese, Jr.	Property Valuation Administrator
Rick Wilson	Coroner

**Appointed Personnel:**

Larry Dudley	County Treasurer
Gale Cowan	Deputy Judge/Executive
Lisa Lee	Personnel/Payroll Clerk
Jobe Darnell	Road Supervisor
Mary Allender	911 Administrator

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

ADAIR COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 622,598	\$ 81	\$ 52,301	\$ 674,980
Total Assets	\$ 622,598	\$ 81	\$ 52,301	\$ 674,980
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Capital Leases	\$ 680,136	\$	\$	\$ 680,136
Bond Payments	309,190			309,190
Total Other Resources	\$ 989,326	\$ 0	\$ 0	\$ 989,326
Total Assets and Other Resources	\$ 1,611,924	\$ 81	\$ 52,301	\$ 1,664,306

The accompanying notes are an integral part of the financial statements.

ADAIR COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Leases (Note 5)	\$ 680,136	\$	\$	\$ 680,136
Bonds (Note 4)	309,190			309,190
Payroll Liabilities	<u>16,577</u>			<u>16,577</u>
Total Liabilities	<u>\$ 1,005,903</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,005,903</u>
<u>Equity</u>				
Retained Earnings	\$	\$	\$ 52,301	\$ 52,301
Fund Balances:				
Unreserved	<u>606,021</u>	<u>81</u>		<u>606,102</u>
Total Equity	<u>\$ 606,021</u>	<u>\$ 81</u>	<u>\$ 52,301</u>	<u>\$ 658,403</u>
Total Liabilities and Equity	<u><u>\$ 1,611,924</u></u>	<u><u>\$ 81</u></u>	<u><u>\$ 52,301</u></u>	<u><u>\$ 1,664,306</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

ADAIR COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,041,675	\$ 1,604,206	\$ 640,202	\$ 37,393
Other Financing Sources:				
Transfers In	55,852	140,000	23,000	
Kentucky Advance Revenue Program	411,200	61,300		
Total Cash Receipts	<u>\$ 1,508,727</u>	<u>\$ 1,805,506</u>	<u>\$ 663,202</u>	<u>\$ 37,393</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 866,254	\$ 1,765,034	\$ 652,466	\$ 41,276
Miscellaneous				
Other Financing Uses:				
Transfers Out	179,122			
Bonds:				
Principal Paid			16,895	
Principal on Capital Leases	42,500	24,080	8,251	
Kentucky Advance Revenue Program Repaid	411,200	61,300		
Total Cash Disbursements	<u>\$ 1,499,076</u>	<u>\$ 1,850,414</u>	<u>\$ 677,612</u>	<u>\$ 41,276</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 9,651	\$ (44,908)	\$ (14,410)	\$ (3,883)
Cash Balance - July 1, 2002	413,004	83,480	27,035	23,894
Cash Balance - June 30, 2003	<u>\$ 422,655</u>	<u>\$ 38,572</u>	<u>\$ 12,625</u>	<u>\$ 20,011</u>

The accompanying notes are an integral part of the financial statements.



ADAIR COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

General Fund Type			Special Revenue Fund Type			
Solid Waste Recycling Fund	Voted Public Health Facilities Fund	Enhanced 911 Fund	Forest Fire Protection Fund	Intergovernmental Transfer Fund	Totals (Memorandum Only)	
\$ 7,457	\$ 276	\$ 235,514	\$ 2,045	\$ 1,898	\$ 3,570,666	
15,500			622		234,974	
					472,500	
<u>\$ 22,957</u>	<u>\$ 276</u>	<u>\$ 235,514</u>	<u>\$ 2,667</u>	<u>\$ 1,898</u>	<u>\$ 4,278,140</u>	
\$ 23,012	\$ 5	\$ 240,695	\$ 2,586	\$ 1,898	\$ 3,593,221	
	55,852				234,974	
					16,895	
					74,831	
					472,500	
<u>\$ 23,012</u>	<u>\$ 55,857</u>	<u>\$ 240,695</u>	<u>\$ 2,586</u>	<u>\$ 1,898</u>	<u>\$ 4,392,426</u>	
\$ (55)	\$ (55,581)	\$ (5,181)	\$ 81	\$ 0	\$ (114,286)	
1,674	55,581	138,346			743,014	
<u>\$ 1,619</u>	<u>\$ 0</u>	<u>\$ 133,165</u>	<u>\$ 81</u>	<u>\$ 0</u>	<u>\$ 628,728</u>	

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE



ADAIR COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
<u>Cash Receipts</u>	
Jail Canteen Receipts	<u>\$ 542,789</u>
Total Cash Receipts	<u>\$ 542,789</u>
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	<u>\$ 524,523</u>
Total Cash Disbursements	<u>\$ 524,523</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 18,266
Cash Balance - July 1, 2002	<u>34,035</u>
Cash Balance - June 30, 2003	<u><u>\$ 52,301</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE





ADAIR COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Income	\$ 18,266
Net Cash Provided By Operating Activities	<u>\$ 18,266</u>
Net Increase In Cash	\$ 18,266
Cash and Cash Equivalents - July 1, 2002	<u>34,035</u>
Cash and Cash Equivalents - June 30, 2003	<u>\$ 52,301</u>

The accompanying notes are an integral part of the financial statements.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Adair County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Adair County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Adair County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Adair County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Adair County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Solid Waste Recycling Fund, Voted Public Health Facilities Fund, and the Enhanced 911 Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Adair County Special Revenue Fund Type includes the following county funds: Forest Fire Protection Fund and Intergovernmental Transfer Fund.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Adair County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Adair County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Voted Public Health Facilities Fund; however, a formal budget should have been adopted for this fund.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Westlake Regional Hospital is considered a related organization of Adair County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

ADAIR COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$254,005 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 124,730
Collateralized with securities held by pledging depository institution in the county's name	522,500
Uncollateralized and uninsured	<u>254,005</u>
Total	<u><u>\$ 901,235</u></u>

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,326 of revenue bonds at various interest rates (7.10 percent through 10.625 percent), of which the county agreed to pay \$486,577 principal and a proportional share of interest. Revenue bonds outstanding as of June 30, 2003, totaled \$309,189. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 19,036	\$ 17,966
2005	17,860	19,105
2006	16,611	20,317
2007	15,282	21,605
2008	13,868	22,975
2009-2013	44,796	138,665
2014-2015	4,414	68,556
Totals	<u>\$ 131,867</u>	<u>\$ 309,189</u>

Note 5. Capital Lease Agreements

The county has entered into the following capital lease agreements:

A. Courthouse Annex Building

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land and the construction of a courthouse annex building. The agreement requires 240 monthly payments and an annual principal amount to be paid in full January 2012. Principal outstanding as of June 30, 2003 was \$379,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 25,465	\$ 33,000
2005	21,267	35,000
2006	18,968	37,000
2007	16,513	40,000
2008	13,893	42,000
2009-2012	26,226	192,000
Totals	<u>\$ 122,332</u>	<u>\$ 379,000</u>

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Capital Lease Agreements (Continued)

B. Voting Machines

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of voting machines. The agreement requires 120 monthly payments and will be paid in full November 20, 2007. Principal outstanding as of June 30, 2003 was \$30,198. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 1,175	\$ 6,755
2005	819	6,534
2006	552	6,834
2007	273	7,148
2008	28	2,927
Totals	<u>\$ 2,847</u>	<u>\$ 30,198</u>

C. Voting Machines

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of voting machines. The agreement requires 36 monthly payments and will be paid in full November 20, 2003. Principal outstanding as of June 30, 2003 was \$2,224. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	<u>\$ 25</u>	<u>\$ 2,224</u>

D. Jail Roof

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance the replacement of the jail roof. The agreement requires 60 monthly payments and will be paid in full March 20, 2004. Principal outstanding as of June 30, 2003 was \$7,748. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	<u>\$ 136</u>	<u>\$ 7,748</u>

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Capital Lease Agreements (Continued)

E. Road Paving Project

The county entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) to finance a road-paving project. The agreement requires 120 monthly payments and will be paid in full November 20, 2011. Principal outstanding as of June 30, 2003 was \$260,966. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 8,321	\$ 29,649
2005	6,602	28,262
2006	5,745	29,125
2007	4,851	30,014
2008	3,937	30,931
2009-2012	6,111	112,985
Totals	<u>\$ 35,567</u>	<u>\$ 260,966</u>

Note 6. Material Grants

A. PRIDE Community Grant Program

Adair County Fiscal Court (Fiscal Court) was awarded a grant under the Personal Responsibility in a Desirable Environment (PRIDE) Community Grant Program through the Center For Rural Development from National Oceanic Atmospheric Administration, United States of America, in the amount of \$61,165. Grant proceeds are to be used for fall and spring community cleanup. During fiscal year 2003, the Fiscal Court received funds of \$56,165 and expended grant funds totaling \$61,165. The amount due from PRIDE as of June 30, 2003, was \$5,000.

B. Transportation Grant

Adair County Fiscal Court (Fiscal Court) was awarded a grant from Transportation Cabinet, Commonwealth of Kentucky in the amount of \$200,000. Grant proceeds are to be used for resurfacing roads in Adair County. During fiscal year 2003, the Fiscal Court received no funds, but expended grant funds totaling \$147,832. The amount due from the Transportation Cabinet as of June 30, 2003, was \$147,832.



ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2003, Adair County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Road Escrow Fund

In fiscal year ended June 30, 2001, Adair County Fiscal Court established a Road Escrow Fund. This fund was established from \$1,600 received from a taxpayer to pay for the road improvement of a right of way on Athleta Trace. In the event the road improvement should cost less than \$1,600, the remainder was to be returned to the taxpayer. The road improvement was completed during the fiscal year ended June 30, 2003 at a cost of \$1,108. The remaining \$492 was refunded to the taxpayer, leaving a balance of \$0 in the road escrow fund as of June 30, 2003.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



ADAIR COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,601,875	\$ 1,041,675	\$ (560,200)
Road and Bridge Fund	1,657,725	1,604,206	(53,519)
Jail Fund	631,720	640,202	8,482
Local Government Economic Assistance Fund	44,484	37,393	(7,091)
Solid Waste Recycling Fund	3,466	7,457	3,991
Enhanced 911 Fund	230,153	235,514	5,361
<u>Special Revenue Fund Type</u>			
Forest Fire Protection Fund	2,586	2,045	(541)
Intergovernmental Transfer Fund	<u>2,451,344</u>	<u>1,898</u>	<u>(2,449,446)</u>
Totals	<u>\$ 6,623,353</u>	<u>\$ 3,570,390</u>	<u>\$ (3,052,963)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,623,353
Add: Budgeted Prior Year Surplus			547,041
Less: Other Financing Uses			<u>(510,827)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 6,659,567</u>

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SCHEDULE OF OPERATING REVENUE





ADAIR COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

GOVERNMENTAL FUND TYPE

<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 673,886	\$ 2,045	\$ 675,931
In Lieu Tax Payments	21,456		21,456
Excess Fees	171,359		171,359
Licenses and Permits	13,861		13,861
Intergovernmental Revenues	2,381,503		2,381,503
Charges for Services	77,027		77,027
Miscellaneous Revenues	209,815	1,898	211,713
Interest Earned	17,816		17,816
Total Operating Revenue	<u>\$ 3,566,723</u>	<u>\$ 3,943</u>	<u>\$ 3,570,666</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



ADAIR COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 619,439	\$ 591,537	\$ 27,902
Protection to Persons and Property	847,525	777,842	69,683
General Health and Sanitation	28,720	26,512	2,208
Social Services	3,000	1,960	1,040
Recreation and Culture	10,657	9,657	1,000
Roads	1,691,326	1,689,675	1,651
Airports	7,700	7,700	
Debt Service	66,772	55,314	11,458
Administration	930,498	428,540	501,958
Total Operating Budget - General Fund Type	\$ 4,205,637	\$ 3,588,737	\$ 616,900
Other Financing Uses:			
Kentucky Local Correctional Facilities			
Construction- Principal on Bond	16,895	16,895	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	411,200	411,200	
Capital Lease Agreement-			
Principal on Leases	82,732	74,831	7,901
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 4,716,464</u>	<u>\$ 4,091,663</u>	<u>\$ 624,801</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 2,586	\$ 2,586	\$
Administration	2,451,344	1,898	2,449,446
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 2,453,930</u>	<u>\$ 4,484</u>	<u>\$ 2,449,446</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Vaughan, Adair County Judge/Executive  
Members of the Adair County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Adair County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Fiscal Court Paid \$4,517 Of Service Charges Because Invoices Were Not Paid Timely

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 11, 2004

## COMMENTS AND RECOMMENDATIONS



ADAIR COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

NONCOMPLIANCES

1) The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On August 31, 2002, \$254,005 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Jerry Vaughan's Response:*

*None*

2) The Fiscal Court Paid \$4,517 Of Service Charges Because Invoices Were Not Paid Timely

In the prior year we reported that numerous invoices for road materials were not paid in a timely manner resulting in the county paying \$63,015 of interest and service charges. Since the County Judge/Executive stated that the county had in the past had an agreement with the vendor to allow for late payment of invoices, and since the County Judge/Executive provided auditors with a copy of a statement from this vendor stating that the county had paid and was currently paying according to the vendor's terms, we recommended that he and the County Judge/Executive and County Attorney obtain a refund of the interest and service charges paid. On March 19, 2004, the County Attorney sent a letter to the vendor to follow up on this matter. The County Attorney has also met with the vendor to discuss this matter. As of the audit date, no decision had been made about whether the county will be refunded the interest and service charges paid.

On November 13, 2002 the county paid the same vendor \$389,895 for road materials. Of this amount a total of \$297,580 was for invoices that were over 30 days old. As a result of this, the county paid an additional \$4,517 in service charges.

KRS 65.140 states that "unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which follow receipt of the vendor's invoice by the purchaser."

We recommend that the county pay all invoices within 30 working days as required by this statute in order to avoid interest and service charges.

*County Judge/Executive Jerry Vaughan's Response:*

*None*

ADAIR COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

PRIOR YEAR FINDINGS

In the prior year we reported that the county did not pay invoices for road material in a timely manner resulting in interest and services charges. This has not been corrected in the current year.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2003




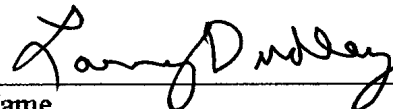


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS  
ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Adair County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
County Judge/Executive

  
\_\_\_\_\_  
Name  
County Treasurer



